Supreme Court, U.S.
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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the Federal Circuit correctly determined that the district court abused its discretion in denying a permanent injunction under the case-specific facts presented here once infringement was found.

PARTIES TO THE PROCEEDING

Respondent MercExchange, L.L.C. is a Virginia Limited Liability Company. No publicly-held company owns more than 10% of MercExchange.

In addition to petitioners eBay Inc. and Half.com, Inc., ReturnBuy, Inc. ("ReturnBuy") was a defendant in this action. Prior to trial, ReturnBuy entered into a license agreement with MercExchange and settled the lawsuit.

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STATUTORY PROVISIONS INVOLVED

Section 154 of the Patent Act, 35 U.S.C. § 154(a)(1), provides, in pertinent part, that:

> Every patent shall contain...a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States....

Section 261 provides, in pertinent part, that:

> Subject to the provisions of this title, patents shall have the attributes of personal property.

Section 283 provides that:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

INTRODUCTION

The petition presents no general legal issue meriting review by this Court. There is no division within the Federal Circuit over the principles of law governing the issuance of permanent injunctions once infringement has been found. There was no dissenting opinion, and the petition for rehearing and rehearing *en banc* was denied without dissent.

Indeed, the Federal Circuit has been entirely faithful to this Court's jurisprudence in this area. The principles it applied are well-established and have been repeatedly reaffirmed. In fact, the petitioners ignore entirely this Court's leading pronouncement on the matter which long ago settled the question presented here. Moreover, the Federal Circuit's articulation and application of these principles in this case was correct. Petitioner's challenge to

the decision, therefore, presents only case-specific issues not appropriate for review by this Court.

COUNTER-STATEMENT OF THE CASE

Petitioners contend that "[a] permanent injunction in the context of patent law is a potent remedy." Pet. Brf. at 2. It should be. Petitioners stand before this Court conceded intentional infringers, having waived any further challenge to that finding. As such, they claim they are confronted with a difficult choice: redesign their product to eliminate reliance on the patent, negotiate a fair license agreement as a result of their willful infringement, or cease infringing altogether. This may be a difficult choice, but it is the natural consequence of their infringing acts, given the essence of the right conferred by a patent: the right to exclude. Indeed, it is the choice that confronts every adjudicated infringer.

To do otherwise, particularly under the facts of this case, is to undermine the careful balancing that Congress conducted in crafting the Patent Act. As this Court recognized in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974):

> The stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to "promote the Progress of Science and useful Arts." *The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development.* The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens.

Id. at 480 (emphasis added).

"The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989).

Any candid discussion concerning the standards for permanent injunctions, however, should begin with this Court's decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). As this Court observed, "[t]he right which a patentee receives does not need much further explanation. We have seen that it has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor." *Id.* at 429. Thus,

> [f]rom the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

Id. at 430.

Petitioners' single fleeting reference to the *Continental Paper Bag* decision, Pet. Brf. at 24, reveals their awareness of the case, but also exposes their unwillingness to come to grips with its holding. Although unstated, Petitioners seek no less than that this decision be overruled. The Court would be wise not to upset this long-established law. It is consistent with the purposes stated by Congress in the Patent Act. And it has stood the test of time.

In reviewing the lower court's ruling, the Federal Circuit addressed the specific reasons given for denying the injunction. In each instance, it found the district court's reasoning flawed, and accordingly, reversed the denial.

Indeed, petitioners fail to mount even a modest defense of the district court's analysis.

Instead, they erect a strawman argument, variously describing the Federal Circuit's case-specific ruling as an "automatic injunction rule," a "*per se* rule" or a "virtual irrebutable presumption." It is nothing of the sort. And once the premise is scrutinized, the argument collapses.

Contrary to petitioners' contentions, the Federal Circuit announced no new rule requiring injunctions in all instances once infringement is found. Its jurisprudence with respect to permanent injunctions is entirely consistent with the long-settled precedent of this Court. And while petitioners attempt to take the Federal Circuit to task for its alleged failure to mechanically recite and apply the traditional four-part test governing the issuance of a permanent injunction, ironically, it performed that very analysis in this case.

The district court, as petitioners observe, considered whether: (i) the plaintiff faced irreparable harm, (ii) the plaintiff had an adequate remedy at law, (iii) granting the injunction was in the public interest, and (iv) the balance of hardships tipped in the plaintiff's favor. In turn, the Federal Circuit addressed each point.

If petitioners' criticism of the Federal Circuit's reversal had merit, however, one would expect to see a rigorous application by them of the four-part test establishing that the Federal Circuit had reached an erroneous result, rather than the district court. But it is nowhere to be found. Irreparable harm and inadequacy of the legal remedies are a natural consequence of the violation of the right conferred: the right to exclude. That "right" can only retain its "attribute of exclusiveness" by prevention of its continued violation. As for balancing of the hardships, it is difficult to understand how the scales could ever tip in favor of the intentional infringer, rather than the innocent property owner. But in this instance, where the evidence established that eBay first

sought to buy MercExchange's patents, and then later simply decided to infringe, the balance could never tip in its favor.

As for the "public interest," this factor should always be considered. In fact, it has often been said that the public interest factor favors the patentee, given the public's interest in maintaining the integrity of the patent system. And, there is no such countervailing public interest present here: the public has no significant stake in the ability of eBay users to buy and sell collectibles, and other goods, over the Internet.

As this Court has repeatedly observed, the right to exclude is "universally held to be a fundamental element of the property right." *See, e.g., Kaiser Aetna v. United States*, 444 U.S. 164, 180-81 (1979). Petitioners, however, would have this Court ignore this fundamental right and replace it with an entirely unworkable "compulsory license" scheme. Under petitioners' analysis, any failure to succeed in building a business to commercialize a patent would result in an involuntary license afforded to anyone who is willing to pay a royalty — albeit on their own terms. But that is not the law.

I. BACKGROUND

The inventor Thomas Woolston applied for his first patent involving online market and auction technologies in April of 1995, some five months before eBay came into existence. MercExchange, is the assignee of four such patents. U. S. Patent No. 5,845,265 (the "'265 Patent") was the first patent issued in December of 1998.

The '265 Patent provides a set of tools for individuals to sell goods to other individuals ("person-to-person") at a fixed price over the Internet. "Posting terminals," typically a personal computer with an Internet browser, with access to "digital imaging means," such as a digital camera or scanner, and a "communication interface" can "post" or list a good for sale over a "trusted network or system."

The item is then "virtually presented" for sale at an "electronic market" accessible by users over the Internet. A "transaction processor operably connected" to the market can clear payment from a buyer and transfer ownership of the good through records maintained by the electronic market. Both eBay and Half.com employ this functionality in their "trusted systems," as the jury found.

Contrary to petitioners' assertions, MercExchange is no "non-practicing entity," or "NPE." During the 1999-2000 period, MercExchange worked hard to commercialize the technology disclosed and claimed in the patents and applications. C.A. App. 37004-08.

During this period of development, eBay representatives met with MercExchange in June of 2000 in an effort to purchase its patent portfolio. eBay set the agenda for the meeting.

> Below is an outline description of where we are in this negotiation.... *eBay is interested in acquiring a family of applications related to U.S. Patent No. 5,845,265.*

C.A. App. 63785-86 (emphasis added). At the time of this early meeting, eBay was not infringing the '265 Patent. But by July of 2000, eBay acquired a fast-growing competitor, Half.com, for $290 Million, for its successful fixed-price sales capability. In the Fall of 2000, eBay launched its online "transaction processor" known as Billpoint. By this point, eBay had deliberately commenced infringement.

Unfortunately, by late 2000, MercExchange's business efforts were impeded by wide-spread infringement and a lack of capital. MercExchange determined that enforcement of the patent rights was its only recourse. C.A. App. 37005-06.

MercExchange filed suit against petitioners and ReturnBuy — a seller of goods on eBay's online

marketplace — in September of 2001. During the course of the litigation, eBay acquired PayPal, Inc. for $1.5 Billion, replacing Billpoint as its online payment processor.

In December of 2002, MercExchange licensed Autotrader.com — a previous seller on eBay — to its patent portfolio, including the '265 Patent. C.A. App. 37011. That license, however, predicated future royalties upon MercExchange's ability to enjoin eBay from practicing certain of its patent rights. C.A. App. 46615-27.

As the district court observed, the litigation was indeed "bitterly fought." App. 58a, 69a. Petitioners filed eight motions for summary judgment, only one of which was granted, later to be reversed by the Federal Circuit. App. 23a. To say the least, the burdens and costs to MercExchange for the litigation were enormous.

A five week trial commenced in April of 2003. Although the defendants disparaged MercExchange's technical achievements, during trial it was revealed that starting in 1998, eBay had begun to file for patents in the same field at the pace of one application every two weeks. *See* C.A. App. 44216-19; 39992-94. The vast majority of those applications cited MercExchange's patents as material prior art. Moreover, it was established that the Patent and Trademark Office ("PTO") has had occasion to reject petitioners' applications as anticipated by the '265 Patent. C.A. App. 46360-69; 39988-91.

At trial, one eBay expert testified that eBay could "design around" the patents in suit for less than $15,000. On cross-examination, however, he conceded that eBay had never implemented any such "design-around," and more importantly, he had failed to even inform eBay about it. C.A. App. 40005-08.

The jury returned its verdict of willful infringement on May 27, 2003. Nine months after that judgment was entered,

eBay sought reexamination before the PTO of three of MercExchange's patents, including the '265 Patent, based essentially on the same prior art it presented at trial.[1]

Following the Federal Circuit's decision, eBay issued a press release stating it was "pleased" with the decision. *See* http://investor.ebay.com/releases.cfm. Thereafter, in public SEC filings, eBay has told the investing public that "any injunction that might be issued by the district court will not have any impact on [its] business."[2]

II. THE STATUTORY SCHEME

The grant to Congress to enact the patent laws finds its origin in the Constitution, Art. I, § 8, cl. 8. It empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." *Id.* Petitioners' analysis of the Patent Act, however, begins and ends with its remedial scheme. Petitioners focus exclusively on the fact that Section 283 provides that courts "may" grant injunctions to prevent patent violations. Accordingly, petitioners argue that courts have discretion in granting or denying an injunction. MercExchange does not disagree. And neither does the Federal Circuit. But that discretion is not unfettered. It is subject to review by an appellate court, and can be reversed

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[1] The stated legislative purpose of the reexamination statute is to "resolve validity disputes more quickly and less expensively than litigation," and give courts the "benefit from the expertise of the PTO for prior art that was not previously of record." *In re Recreative Technologies Corp.*, 83 F.3d 1394, 1396 (Fed. Cir. 1996). That purpose was clearly frustrated by eBay's post-verdict submission.

[2] MercExchange believes these representations to be untrue. However, it is disingenuous to present to this Court a parade of horribles that would befall petitioners should an injunction enter, when they report otherwise to their shareholders.

when the discretion is abused — as occurred here. There are certainly circumstances in which injunctions can and should be denied, notwithstanding a finding of infringement. Those circumstances have historically involved a significant public interest.

The remedy of the injunction, however, cannot be divorced from its purpose: "to prevent the violation of any right secured by patent." 35 U.S.C. § 283. The "right" Section 283 references is undeniably the "right to exclude" conferred by the patent.

Section 154 states that "[e]very patent shall contain ... *a grant to the patentee, his heirs or assigns, of the right to exclude* others from making, using, offering for sale, or selling the invention throughout the United States...." (emphasis added). It is the right to exclude, therefore, that Section 283 is intended to protect.

Moreover, Section 261 states that "patents shall have the attributes of personal property." "The hallmark of a protected property interest is the right to exclude others. That is 'one of the most essential sticks in the bundle of rights that are commonly characterized as property.'" *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999). Thus, once the "right" is appreciated, the remedy of the injunction is the only means to preserve it. *See Guaranty Trust Co. v. York*, 326 U.S. 99, 108 (1945) ("a right without a remedy is no right at all").

It is no answer, therefore, to say that "money damages" are available under Section 284. Damages do not permit MercExchange to exercise the right granted by statute; only an injunction can achieve that goal. Further, by its express terms, Section 284 permits a "court to award damages adequate to compensate for the infringement *for the use made* of the invention by the infringer...." (emphasis added). Typically, this award is for past damages. *See Atlas Powder*

Co. v. Ireco Chem., 773 F.2d 1230, 1233 (Fed. Cir. 1985) ("[A]rguments that ... damages are fully compensible [sic] in money downplay the nature of the statutory right to exclude others...").

REASONS FOR DENYING THE PETITION

For at least a century, it has been well settled that the nature of the statutory patent grant generally compels that a court will enter a permanent injunction upon a finding of infringement and validity. Thus, the Federal Circuit did not set forth a "sweeping holding," nor did it "fundamental[ly] misconstru[e] [] the law authorizing patent injunctions," as petitioners contend. Pet. Brf. at 12.

Indeed, petitioners fail to inform the Court that during this same year, the Federal Circuit has affirmed the denial of a permanent injunction after a finding of infringement, applying an abuse of discretion standard of review. *See Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380 (Fed. Cir. 2005).

In this case, the appellate court did nothing more than review the case-specific rationale the district court articulated for denying an injunction, and the appellate court correctly found this reasoning to be flawed.

I. THE FEDERAL CIRCUIT CORRECTLY RULED THAT THE DISTRICT COURT ABUSED ITS DISCRETION IN DENYING A PERMANENT INJUNCTION

Petitioners contend that the Federal Circuit — supposedly in defiance of the Patent Act, the rulings of this Court, and the approach taken by other federal courts applying other intellectual property statutes — has adopted a "*per se*" rule that precludes a district court's exercise of discretion. As evidence of this supposed "*volte-face*," petitioners contend that in this case the appellate court did not recite, and therefore must not have applied, the

traditional four-part test governing whether to grant an injunction.[3]

This elevates form over substance. The Federal Circuit clearly considered the specific facts of this case, and the specific reasons that the district court articulated for denying an injunction under the traditional criteria. App 26a-28a. Indeed, the Federal Circuit considered the very equitable considerations petitioners accuse it of discarding.

The Federal Circuit recognized that an injunction was not mandatory but was a matter of discretion. App. 26a (stating "[t]o be sure, 'courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest'") (citations omitted).

First, the appellate court addressed the district court's rationale that the public interest did not weigh in favor of an injunction because of an alleged "growing concern over the issuance of business-method patents, which ... caused legislation to be introduced in Congress to eliminate the presumption of validity for such patents." App. 26a (quoting App. 57a)). The district court held that this alleged concern "len[t] significant weight" against an injunction. App. 57a.

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[3] Similarly, petitioners contend that the Federal Circuit must have departed from "abuse of discretion" review because it did not woodenly recite that standard in the opinion. The parties agreed, however, that the abuse of discretion standard of review applied, and therefore, there was no need to state the obvious. Indeed, only two months earlier, the Federal Circuit reiterated that the abuse of discretion standard of review applies to a denial of a permanent injunction. *Fuji Photo*, 394 F.3d at 1380 (affirming denial of a permanent injunction based on the specific facts presented). Yet remarkably, nowhere in petitioners' brief — which purports to canvass the Federal Circuit's alleged wholesale eradication of discretion — do petitioners cite this decision.

The Federal Circuit appropriately rejected this rationale, and stated that a "general concern regarding business-method patents ... is not the type of important public need that justifies the unusual step of denying injunctive relief." App. 26a. It was not the role of the district court, under the guise of "discretion," to determine that an entire class of patents did not merit the relief afforded under the Patent Act.

Second, the Federal Circuit addressed the district court's reasoning that the balance of hardships weighed against an injunction. App. 58a. The district court found that an injunction might result in contentious contempt hearings in the event of an attempted "design around" by petitioners. App. 26a-27a.

Without question, the Federal Circuit's rejection of this basis for denial of an injunction was correct, and petitioners do not even attempt to defend the district court on this point. The district court's rationale was inexplicable, as it appeared to assume that any dispute between the parties over petitioners' continuing post-trial infringement would simply evaporate if the court denied the injunction. The district court suggested, however, that if petitioners continued their infringement, it would consider a request for enhanced damages. App. 59a. But in that event, the very same "contentious" dispute would exist over whether petitioners continued to infringe. The Federal Circuit correctly held that "[a] continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendants' conduct continued to violate its rights." App. 27a.

Third, with respect to irreparable harm, the Federal Circuit addressed the district court's conclusion that a grant of a compulsory license (albeit the terms for which the district court provided no guidance) was justified because MercExchange had previously expressed a willingness to

negotiate licenses on a voluntary basis. App. 56a. Thus, MercExchange would not be irreparably harmed because the district court could simply require MercExchange to license these willful infringers.[4] App. 55a. Based on the same reasoning, the district court concluded that MercExchange had an adequate remedy at law. App. 56a.

The Federal Circuit rejected the notion that MercExchange's voluntary licensing meant that it was not irreparably harmed, or that it had an adequate remedy at law. It stated:

> The fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled. Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

App. 27a.[5]

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[4] The district court also refused to enhance damages or award attorney's fees to MercExchange. App. 67a-72a. Thus, notwithstanding that petitioners' infringement was found willful, they will be required to pay only a reasonable royalty. In other words, they will stand in the same position as if they had willingly entered into a license agreement from the outset.

[5] In addition, the district court's rationale contradicted its separate statement that the public interest weighed against an injunction because, "in a case such as this, the public does not benefit from a

Finally, the district court held — without citation to any authority — that the fact that MercExchange had not moved for a preliminary injunction demonstrated a lack of irreparable harm. App. 55a. The Federal Circuit correctly held that this was not a compelling basis to deny post-trial permanent injunctive relief. App. 27a-28a (holding that requests for preliminary and permanent injunctions are "distinct forms of equitable relief that have different prerequisites and serve entirely different purposes")). Here again, petitioners make no attempt to defend the district court's rationale. To adopt such a rule would create an ill-advised incentive requiring patentees to file motions for preliminary injunctions in order to preserve their rights to permanent relief.

Thus, the Federal Circuit did not disregard traditional equitable considerations. Rather, it found the district court's stated reasons constituted an abuse of discretion.

II. THE FEDERAL CIRCUIT'S JURISPRUDENCE ON PERMANENT INJUNCTIONS IS ENTIRELY CONSISTENT WITH THIS COURT'S PRECEDENT

Reduced to its essentials, petitioners' argument here is that notwithstanding a now binding adjudication of willful patent infringement and validity, they should be able to continue their infringing acts because MercExchange purportedly will not be irreparably harmed and has an

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patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." App. 57a. Clearly, if MercExchange had licensed its patents to others, it had not deprived the public of the benefit of its inventions.

More importantly, the public benefits by the disclosure of the invention through publication of the patent, not its commercialization. *See Kewanee Oil*, 416 U.S. at 480.

adequate remedy at law, *i.e.*, money damages. But this Court long ago recognized the fallacy of this contention.

Indeed, it may have found its earliest roots in a decision by Chief Justice John Marshall in *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 242 (1832), which held that the essential right an inventor receives from a patent is the right to exclude others from its use for the term prescribed by the statute: "And for his exclusive enjoyment of it during that time the public faith is forever pledged."

Chief Justice Marshall had previously addressed the nature of the patent right while riding as a circuit judge in Virginia, explaining that,

> [t]he constitution gives to the legislature a power 'to promote the progress of useful arts, by securing, for limited times, to inventors, the exclusive right to their respective discoveries.' In the exercise of this constitutional power, the legislature has passed an act ... giving to the patentee the exclusive right to make, devise, use, or sell it, for fourteen years from the date of the patent. The constitution and law, taken together, give to the inventor, from the moment of invention, an inchoate property therein, which is completed by suing out a patent. *This inchoate right is exclusive. It can be invaded or impaired by no person. No person can, without the consent of the inventor, acquire a property in the* invention....Were it otherwise, the exclusive right in the discovery which the constitution authorizes congress to secure to the inventor, and the exclusive right to use it after the date of the patent, which the act of congress confers, would not be exclusive, but would be participated with every person who had constructed the machine previous to the emanation of the patent.

Evans v. Jordan, 8 F. Cas. 872, 873 (C.C. Va. 1813) (Marshall, C.J.) (emphasis added), *aff'd*, 13 U.S. (9 Cranch) 199 (1815).

Eleven years later, in *Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824), Justice Story emphasized that,

> [t]he securing to inventors of an exclusive right to their inventions, was deemed of so much importance, as a means of promoting the progress of science and the useful arts, that the constitution has expressly delegated to Congress the power to secure such rights to them for a limited period. The inventor has, during this period, a property in his inventions; a property which is often of very great value, and of which the law intended to give him the absolute enjoyment and possession.

Accordingly, "[t]he patent acts have given to the patentee a right to sue at common law, for damages for any violation of his invention; and have given him a farther right to claim the interference of a Court of equity, *by way of injunction*, to protect the enjoyment of his patent." *Id.* at 608-09 (emphasis added).

Later, in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852), this Court reiterated that "[t]he franchise which the patent grants, consists altogether in the right to exclude everyone from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent."

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), this Court had occasion to consider the issue once again:

> It may be well, however, before considering what remedies a patentee is entitled to, to consider what rights are conferred upon him. The source of the rights is, of course, the law, and we are admonished

> at the outset that we must look for the policy of a statute, not in matters outside of it — not to circumstances of expediency and to supposed purposes not expressed by the words. The patent law is the execution of a policy having its first expression in the Constitution, and it may be supposed that all that was deemed necessary to accomplish and safeguard it must have been studied and provided for. *It is worthy of note that all that has been deemed necessary for that purpose, through the experience of years, has been to provide for an exclusive right to inventors to make, use, and vend their inventions.* In other words, the language of complete monopoly has been employed, and though at first only a remedy at law was given for a violation of the right, a remedy in equity was given as early as 1819.

210 U.S. at 423-24 (emphasis added).

In *Continental Paper Bag*, the issue was whether an adjudicated infringer of a valid patent should be allowed to respond at law in damages only. The infringer's argument was predicated upon the fact that the patent owner was not using his invention and, hence, the equitable principle, *i.e.*, irreparable harm to the patent owner, could not be said to exist. The infringer's argument failed. To the suggestion that the absence of immediate competitive harm rendered inappropriate the exclusivity accorded by injunctive relief, this Court responded:

> [W]e answer that such exclusion may be said to have been of the very essence of the right conferred by the patent.

210 U.S. at 429. The Court went on to hold that because of the nature of the patent right, infringement constitutes irreparable harm:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

210 U.S. at 430.[6]

The rationale of *Continental Paper Bag* has withstood the test of time. It was affirmed in *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24 (1923), again in *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100 (1969), and again, in *Dawson Chemical Co. v. Rohm & Haas*, 448 U.S. 175 (1980).

In *Zenith Radio Corp.*, 395 U.S. at 135, this Court reaffirmed this conclusion:

> A patentee has the exclusive right to manufacture, use and sell his invention...The heart of his legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent.

In *Dawson Chemical Co.*, 448 U.S. at 197, this Court again confirmed that the "traditional remedy against ... infringement is the injunction." Citing its earlier decisions in *Continental Paper Bag* and *Zenith*, the Court said:

> [p]etitioners' argument runs contrary to the long-settled view that the essence of a patent grant is the

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[6] Significantly, the Court left open the question whether under certain circumstances, "a court of equity might be justified in withholding relief by injunction" "in view of the public interest." *Continental Paper Bag*, 210 U.S. at 430. This concern still finds its expression in the modern-day decisions of the Federal Circuit. *See* App. 26a.

right to exclude others from profiting by the patented invention.

In the present case, the Federal Circuit did no more than to apply the law long ago settled by this Court. Yet nowhere in the petition is there to be found any discussion of this precedent.

III. THE FEDERAL CIRCUIT HAS FOLLOWED THIS COURT'S PRECEDENT UPHOLDING THE PATENT OWNER'S RIGHT TO EXCLUDE

In the wake of these precedents, it cannot reasonably be said that the Federal Circuit has engaged in a judicial frolic and detour. Rather, since its creation the Federal Circuit has consistently recognized — as had its predecessors — that given the nature of the right, an injunction is appropriate upon a determination of patent infringement, except in rare instances. And in so doing, the Federal Circuit has seamlessly applied the bedrock principles of patent law established by this Court.[7]

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[7] Prior to the creation of the Federal Circuit, it was well understood that permanent injunctive relief was the norm, with few exceptions, upon a finding of infringement. *See* I. Kayton, KAYTON ON PATENTS, Ch. 1, pp. 20-21 (1979) ("This injunctive relief by the court is the endorsement by the state which is required by the property label above....The state may and does, *on rare occasions,* refuse to grant an injunction....Thus, in the patent situation there have been *rare instances* when the court has awarded damages to the patentee but has refused to grant an injunction.") (emphasis added); Herbert F. Schwartz, Note, Injunctive Relief in Patent Infringement Suits, 112 U. Pa. L. Rev. 1025, 1048 (1964) ("upon proof of title, infringement, and validity at final trial, courts have invariably granted permanent injunctions, save in the very narrow areas of grossly disparate harm and public inconvenience"); Notes, The Enforcement of Rights Against Patent Infringers, 72 Harv. L. Rev. 328, 342 (1958) ("Once the issues have been finally adjudicated in the plaintiff's favor, a permanent injunction is

Thus, in 1983, one year after the Federal Circuit's creation, the court recognized that "[t]he grant of a patent is the grant of the right to invoke the state's power in order to exclude others from utilizing the patentee's discovery without his consent." *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1577 (Fed. Cir. 1983) (citing *Zenith Radio Corp.*, 395 U.S. at 135; *Sears, Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225, 229 (1964); and *Continental Paper Bag*, 210 U.S. at 430)).

The court explained:

> Without this injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution and Congress, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the "leverage," afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Id. at 1577-78 (citations omitted).

Applying these principles, the Federal Circuit held that "where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed. To hold otherwise would be contrary to

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usually granted as a matter of course. However, on rare occasions the courts have refused this relief when the nature of the injury was trifling or when the defendant would have suffered injury out of all proportion to the value of protecting the patentee's monopoly, provided the defendant was capable of responding in damages.").

the public policy underlying the patent laws." *Id.* at 1581 (citations omitted).

The following year, the Court instructed that the grant of an injunction was not mandatory, but was a matter of discretion depending on the equities of the case. *Roche Prods., Inc. v. Bolar Pharm. Co., Inc.*, 733 F.2d 858, 865 (Fed. Cir. 1984), *superseded on other grounds, by statute*, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs. v. C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992).[8]

The Federal Circuit also acknowledged that circumstances will arise that warrant denial of an injunction. In a 1995 decision the Court — sitting *en banc* — commented, "[i]f a patentee's failure to practice a patented invention frustrates an important public need for the invention, a court need not enjoin infringement of the patent." *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (*en banc*). Accordingly, "courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Id.*[9]

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[8] The court remanded to consider whether an injunction was appropriate based on the facts that the patent had expired, the parties had presented the case as a "test" of the experimental use defense, and the defendant had even notified the plaintiff of what it was doing at all times so that the patentee could act promptly to defend its rights. *Id.* at 865-66.

[9] Petitioners engage in a lengthy discussion of *Hecht Co. v. Bowles*, 321 U.S. 321 (1944), *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982), *Amoco Production Co. v. Gambell*, 480 U.S. 531 (1987), and *United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483 (2001), for the unremarkable proposition that Congress may legislate remedial schemes that permit courts to exercise equitable discretion. Certainly Congress may, and has done so. MercExchange does not contend that Congress did anything other than grant courts discretion to issue injunctions to prevent the violation of the right conferred by a patent. The Federal Circuit has repeatedly acknowledged as much. *See, e.g.*,

The Federal Circuit has cited with approval decisions of predecessor courts in which the facts of the case warranted withholding an injunction based on the public interest. *Rite Hite*, 56 F.3d at 1547-48. In one such case, a court denied the injunction because it would have closed the City of Milwaukee's sewage plant, allowing the entire community's raw sewage to run into Lake Michigan, at considerable detriment to the public health. *City of Milwaukee* v. *Activated Sludge, Inc.*, 69 F.2d 577 (7th Cir. 1934). In another case, a court denied injunctive relief where the patent covered a process for treating rickets through irradiation of margarine, referred to as "the butter of the poor." *Vitamin Techs., Inc. v. Wisconsin Alumni Research Found.*, 146 F.2d 941, 945 (9th Cir. 1945).

Roche Prods., 733 F.2d at 865 ("Section 283, by its terms, clearly makes the issuance of an injunction discretionary.").

Petitioners' "*may*" versus "*shall*" argument therefore misses the point. The fundamental difference between these cases, and the instant case, is that the statutory scheme involved in the Patent Act involves the fundamental "right to exclude." In contrast, *Hecht*, *Romero-Barcelo*, *Gambell* and *Oakland Cannabis Buyers' Coop.* dealt only with statutes addressed to policies of general public concern, not a personal property right.

In *TVA v. Hill*, 437 U.S. 153 (1978), however, this Court held that the statute involved, the Endangered Species Act, required the district court to enjoin a violation of the statute. *See id.* at 173. This Court observed that refusal to enjoin the violation would have ignored the "explicit provisions" of the Act. *Id.* Thus, the purpose and language of the statute limited the remedies available to the district court: "Only an injunction could vindicate the objectives of the Act." *See Romero-Barcelo*, 456 U.S. at 314. Similarly, the objective of the Patent Act is to promote the progress of science and useful arts, "by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development." *Kewanee Oil Company*, 416 U.S. at 480. Like *Hill*, only an injunction can vindicate the objective of that Act.

The court applied these principles in a consistent manner, stating in 1988, "[a]lthough the district court's grant or denial of an injunction is discretionary depending on the facts of the case, injunctive relief against an adjudged infringer is usually granted." *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988). Further, "[t]his court has indicated that an injunction should issue once infringement has been established unless there is a sufficient reason for denying it." *Id.* In *Garlock*, in the absence of "very persuasive" evidence that further infringement would not take place, the Court held that it was an abuse of discretion to deny a permanent injunction. *Id.* 1281-82.

And by 1989, the Federal Circuit stated that "[i]nfringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property." *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). The court declared the now oft-cited rule that "[i]t is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it." *Id.* at 1247.

These statements are no different from the principles articulated and applied by the Federal Circuit in this case. App. 26a ("Because the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged"). These precedents of the Federal Circuit have existed for over twenty years. Yet Congress has not seen fit to alter the injunction provision in response to some perceived error of interpretation by the Federal Circuit.

IV. THERE IS NO DIVISION OF AUTHORITY WITH RESPECT TO OTHER INTELLECTUAL PROPERTY STATUTES THAT MERITS THIS COURT'S REVIEW

Petitioners attempt to contrive a division of law between the Federal Circuit and other federal appellate courts by arguing that the standards for permanent injunctions in trademark and copyright cases are different than the Federal Circuit utilizes in patent cases. However, courts typically provide permanent injunctive relief in trademark and copyright cases upon a finding of infringement, just as in patent cases.

Federal courts have characterized the permanent injunction as the "remedy of choice for trademark and unfair competition cases, since there is no adequate remedy at law for the injury caused by a defendant's continuing infringement." *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1180 (9th Cir. 1988); *see also William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 531 (1924) ("[t]he charge of unfair competition being established, it follows that equity will afford relief by injunction to prevent such unfair competition for the future").

In language that echoes unmistakably these principles, the leading treatise on trademark law states:

> If a defendant has been found to be committing acts which constitute unfair competition, there seems little doubt that money damages are "inadequate" to compensate plaintiff for continuing acts of defendant.
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> ****
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> It is difficult to imagine an unfair competition case where damages are adequate to remedy the problem of defendant's continued acts. If an injunction were denied, the court would be telling the plaintiff to sit by and watch defendant continue to violate the law

> and infringe upon plaintiff's rights until such time as plaintiff decided to sue again for money damages as compensation for the past injury occurred. Thus, an injunction is the standard remedy in unfair competition cases.
>
> ****
>
> The imposition of a compulsory license, permitting the infringer to continue by paying a court-determined royalty to the trademark owner is not a proper remedy.

5 J. McCarthy, Trademarks and Unfair Competition, §§ 30:2, p. 30-6-30-7 (4th ed. 2005).

And likewise, permanent injunctions are widely acknowledged as the appropriate remedy in copyright infringement cases. *See Taylor Corp. v. Four Seasons Greetings, LLC*, 403 F.3d 958, 968 (8th Cir. 2005) (stating that injunctions in copyright cases "regularly are issued...because denial of injunction would otherwise amount to "'forced license to use the creative work of another,'" and because irreparable harm "inescapably flows from denial of [the] right [to control the use of copyrighted materials]"); *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 849 (11th Cir. 1990) ("injunctive relief is a common judicial response to infringement of a valid copyright").

Accordingly, "as a general rule, a copyright plaintiff is entitled to a permanent injunction when liability has been established and there is a threat of continuing violations." *L'Anza Research Int'l, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, 1120 (9th Cir. 1996); *Walt Disney Co. v. Powell*, 897 F.2d 565, 567-68 (D.C. Cir. 1990) ("[w]hen a copyright plaintiff has established a threat of continuing infringement, he is *entitled* to an injunction.") (emphasis in original).

The sole alleged substantive difference that petitioners identify is the consideration of whether there is a threat of continued infringement when determining whether an injunction should enter. However, this argument is wholly irrelevant to this case — indeed, petitioners have continued their willful infringement unabated since trial.

In fact, there is no record evidence that petitioners do not pose a threat of continued infringement. An infringer may not avoid an injunction by a mere *ipse dixit* declaration that it has ceased infringement. *See, e.g., William R. Warner & Co.*, 265 U.S. at 531 ("[s]everal acts of unfair competition having been shown, we are warranted in concluding that petitioner is willing to continue that course of conduct, unless restrained"); *Lyons Partnership, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 800-01 (4th Cir. 2001) (district court improperly denied permanent injunction in copyright and trademark case when denial was based upon defendant's supposed "voluntary cessation" of infringement). Moreover, there is no inconsistency between these decisions and the approach taken by the Federal Circuit in patent cases. *See Garlock*, 842 F.2d at 1281-82 (infringer's allegation that it had ceased infringement required "very persuasive" evidence that further infringement would not take place).[10]

Petitioners fail to show any division between the federal courts pertaining to permanent injunctions in intellectual property cases that merits this Court's review.

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[10] As the court stated, "[i]f the defendant be honest in his protestations an injunction will do him no harm; if he be dishonest the court should place a strong hand upon him...." (*quoting General Elec. Co. v. New Eng. Elec. Mfg. Co.*, 128 F. 738, 740 (2d Cir. 1904)).

V. PETITIONERS' WILLFUL INFRINGEMENT PROVIDES NO CAUSE FOR THIS COURT TO UPSET THE ECONOMIC INCENTIVES OF THE PATENT LAWS

Without question, the remedy of permanent injunctive relief under the patents laws has significance to the national economy. But the appropriate balance of economic incentives under the patent laws — as reflected through the availability of injunctive relief — is a question that has long been settled by Congress and this Court. Their "economic" arguments are nothing more than a plea that the Court reduce in a discriminatory fashion what leverage small and undercapitalized patentees have when negotiating licenses for their patents with large, well-capitalized infringers.

Indeed, it is somewhat startling to hear petitioners purporting to importune the Court on behalf of the nation's "innovators." The innovator in this case, as the jury clearly found, is MercExchange, and petitioners are willful infringers of its patents.

It is entirely appropriate, therefore, and wholly in accord with traditional equitable principles that petitioners find themselves now facing a self-described "Hobson's choice."[11]

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[11] As noted above, nine months after the conclusion of the trial, eBay initiated reexamination proceedings with the PTO. Petitioners suggest that the possibility that the '265 Patent may be invalidated through such a proceeding demonstrates the inequity of enjoining their continued infringement.

Petitioners' argument, however, proves too much. Under their logic, a court should never enter an injunction because there is always a possibility that the patents could be held invalid in a later enforcement action. Any such finding in subsequent litigation would constitute collateral estoppel against the patentee. *Blonder-Tongue Labs., Inc. v. University of Illinois Foundation*, 402 U.S. 313, 350 (1971). Thus, under Petitioners' argument, even willful infringement could never be enjoined.

Moreover, petitioners' anecdotal evidence of the threat of so-called "NPEs" likewise fails to provide a basis for this Court to upset the careful economic balance under the patent laws that Congress has recognized as essential to promoting innovation. Simply stated, petitioners boldly invite this Court to place its thumb on the scales of justice in patent litigation to reduce the leverage that a patentee possesses when negotiating with an infringer. And as MercExchange is not an NPE, this case is a poor vehicle for a referendum on that issue.

First, there are compelling economic arguments in favor of a general policy of granting injunctive relief in most patent infringement cases:

> The injunction creates a property right and leads to negotiations between the parties. A private outcome of these negotiations — whether they end in a license at a particular royalty or in the exclusion of an infringer from the market — is much preferable to a judicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy....

In re Mahurkar Patent Lit., 831 F. Supp. 1354, 1397 (N.D. Ill. 1993), *aff'd*, 71 F.3d 1573 (Fed. Cir. 1995); *accord* KAYTON, *supra*, at 1-21, ("the exclusionary right is a necessary factor in a free-market society. It genuinely determines the market price based upon supply and demand").

Second, denial of the statutory right to exclude others will result in diminished incentives for patentees to innovate, and an attendant increase in the incentive for others to infringe. Conversely, depriving patentees that have licensed their patents to others of the right to exclude — as did the district court in this case — would create an unwise incentive for patentees to refrain from licensing, and would

thereby encourage litigation. Clearly, fear that licensing of a patent would deprive the patentee of injunctive relief would cause any patentee to think twice before granting a license, and would lower the market value of any patent for which a license has been granted. As a result, the inventor instead would likely choose to maintain the invention as a trade secret or forego engaging in research and development efforts altogether, thus depriving the public of knowledge of the invention.

Third, the Patent Act protects the patent rights of all patent owners equally, including individual inventors and small entities. As a result, individual inventors, small firms, and start-up companies that invent something of value, but which lack the means to commercialize their inventions, instead can license or sell their inventions to other firms which do have the resources to bring the inventions to market. Alternatively, patent rights may assist small entities in securing the financing needed to successfully commercialize their inventions, thereby enhancing competition by facilitating the entry of these small entities into the marketplace. *See* Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 2, 4-7 (2003).

Without the right to obtain injunctive relief against adjudicated infringers, however, such small firms and independent inventors, who already face great difficulty in commercializing their inventions, would be unable to license or sell their inventions to other entities or attract investors because their inventions will have little or no value. *See King Instr. Corp. v. Perego*, 65 F.3d 941, 949 (Fed. Cir. 1995).

Fourth, contrary to petitioners' contentions, without injunctive relief, there will be an increase, rather than a decrease, in litigation because there would be incentives to infringe rather than respect a patent owner's rights.

Infringers such as petitioners will choose to infringe calculating that the patent owner will lack the resources to bring them to justice.

Without injunctive relief, the infringer could force the patent owner to bring a succession of enforcement actions, or otherwise forfeit his statutory protection completely. The necessity of multiple infringement suits to protect patent rights from continuing violations would place further burdens upon our courts and would force patent owners to expend ever-increasing resources to protect assets of decreasing value.[12]

Continental Paper Bag, and its progeny, should not be overturned under the facts of this case.

CONCLUSION

For the foregoing reasons, the Petition should be denied.

Respectfully submitted,

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[12] Recurring infringement suits are likely to be significantly more expensive and protracted than a streamlined contempt proceeding that might be conducted to enforce an injunction.